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STATE DOCUMENTS

ANNUAL REPORT

OF THE

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

THE SOCIAL SECURITY DIVISION

MONTANA JUDGES' RETIREMENT SYSTEM

MONTANA GAME WARDENS' RETIREMENT SYSTEM

VOLUNTEER FIREMENS' PENSION



HELENA MONTANA 59601

TO THE

GOVERNOR OF MONTANA

HONORABLE FORREST H. ANDERSON

PLEASE RETURN

FOR THE

FISCAL YEAR ENDED

JUNE 30, 1971

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STATE OF MONTANA
FORREST H. ANDERSON, GOVERNOR

2



PUBLIC EMPLOYEES' RETIREMENT SYSTEM

1712 NINTH AVENUE

TELEPHONE: AREA CODE 406/449-3154

HELENA, MONTANA 59601

The Honorable Forrest H. Anderson
Governor
State of Montana
Helena, Montana 59601

Dear Governor Anderson:

In accordance with requirements of Section 68-501 (c), 68-1404, 93-1109, and 11-2023, RCM, 1947, we herewith submit to you the report covering the fiscal year ended June 30, 1971 of the five (5) agencies administered by the Board of Administration, Public Employees' Retirement System.

Major accomplishments during the year included:

- (1) Aided in the passage of legislation for increasing benefit payments for active members and retirees
- (2) Sold major holdings of government obligations and purchased higher yielding corporates
- (3) Computerized benefit check writing
- (4) Initiated mechanics for participation in the central investment program
- (5) Reorganized Social Security Division to facilitate on site audit program

Recommendations to facilitate the achievement of goals include:

- (1) Secure constitutional changes to allow for broader investment of the trust funds of the several retirement systems administered by the Public Employees' Retirement System

Respectfully submitted,

BOARD OF ADMINISTRATION
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

A handwritten signature in cursive script that reads "Lawrence P. Nachtsheim".

Lawrence P. Nachtsheim, Administrator

TABLE OF CONTENTS

Table of Contents	1
Principal Offices and Officers	2
Legal References	3
Principal Goals	4
Major Accomplishments	5
Major Recommendations	7
Program Description	8
Program Cost Summary and Detail	12

PRINCIPAL OFFICES AND OFFICERS

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

OFFICER
TERM OF OFFICE

HOME ADDRESS

BOARD OF ADMINISTRATION

Ted Schwinden, President
1969-1974

1335 Highland
Helena, Montana

Fred L. Hill, Vice President
1967-1972

1100 5th Ave. N.
Great Falls, Montana

Calvin J. Crowe
1971-1976

1800 Hamburg Avenue
Anaconda, Montana

John L. Prebil
1970-1975

805 5th Avenue
Helena, Montana

Hubert G. White
1968-1973

129 S. Pine
Townsend, Montana

PRINCIPAL ADMINISTRATIVE OFFICERS

John F. Sasek, Secretary of Board

Michael J. Hughes, Attorney

Lawrence P. Nachtsheim, Administrative Assistant

Marie O. Klemme, Benefits Section Chief

Martin Brekke, Acting Supervisor, Social Security Division

Milliman & Robertson, Consulting Actuaries, Seattle, Wash.

PRINCIPAL OFFICE

1712 Ninth Avenue, Helena, Montana 59601

LEGAL REFERENCES

GENERALLY

The Board of Administration of the Public Employees' Retirement System is responsible for the administration of the Public Employees' Retirement System, the Game Wardens' Retirement System, the Judges' Retirement System, and the Social Security Division which provides coverage for certain officers and employees of the State of Montana and its political subdivisions.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

The Public Employees' Retirement Act is compiled in Title 68, Chapters 1 through 13, Revised Codes of Montana, 1947.

GAME WARDENS' RETIREMENT SYSTEM

The Game Wardens' Retirement Act is compiled in Title 68, Chapter 14, Revised Codes of Montana, 1947.

JUDGES' RETIREMENT SYSTEM

The Judges' Retirement System Act is compiled in Title 93, Chapter 11, Revised Codes of Montana, 1947.

SOCIAL SECURITY

The act providing coverage of officers and employees under the Federal Social Security Act is compiled in Title 59, Chapter 11, Revised Codes of Montana, 1947.

VOLUNTEER FIREMEN PENSION

The Volunteer Firemen's Compensation Act is compiled in Title 11, Chapter 20, Revised Codes of Montana, 1947.

PRINCIPAL GOALS

The Public Employees' Retirement System, the Game Wardens' Retirement System, the Judges' Retirement System and the Social Security Division exist to provide some measure of security to employees and their dependents of the State of Montana and its member political subdivisions with adequate benefit programs in the areas of disability, death and retirement.

MAJOR ACCOMPLISHMENTS

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Major Accomplishments Summarized

- (1) Aided in the passage of legislation - PERS
- (2) Sale and purchase of \$4, 715, 000. of securities - PERS
- (3) Computerized benefit check writing - All Systems
- (4) Initiated mechanics for participation in central investment program - All Systems
- (5) Reorganized Social Security Division to facilitate on site audit program - Social Security

Major Accomplishments Described

- (1) Legislation - PERS

The Public Employees' Retirement System supported legislation which, effective July 1, 1971, increased the formula for retirement benefits approximately 7% from 1/70th of final compensation for each year of service to 1/65th of final compensation for each year of service. This legislation also incorporated, at the request of the Board of Administration, a section recognizing the economic changes effecting people previously retired and allowed for an increase equal to one half the increase of the consumer price index from the January previous to retirement to January 1, 1971.

- (2) Sale and Purchase - PERS

In April of 1971, government obligations with a par value of \$4, 715, 000. were sold and corporate bonds with the same par value were purchased. This increased the annual income, of this \$4, 715, 000. holding, from \$195, 545. to \$276, 606.25, or an annual increase of \$81, 061.25. The paper loss \$696, 965.75 (book value less sale price) will be recovered in 8.58 years.

(3) Check Writing - All Systems

The 2800 monthly benefit check issuance was computerized in January of 1970 with the prospect that the check writing function would be centralized in the all-purpose warrant system and be incorporated in the central accounting system. Checks for all systems administered by the PERS will become part of the central system November, 1971.

(4) Central Investment Program - All Systems

In anticipation of the Executive Reorganization mechanics were developed to furnish the central investment agency daily cash flow statements which gave the central investing officer a daily updating of the cash position of the various systems of the Public Employees' Retirement System.

(5) Reorganized Social Security Division

In evaluating the on site audit program it was decided to eliminate the vacated position of the Social Security Accountant, the Chief Executive of the division, and add an additional auditor to the staff to place more emphasis on the audit aspect of the program. The auditor was made the supervisor of this program and division.

It is anticipated that a substantial number of reporting errors will be discovered and corrected, which will immediately increase the adjustment reporting for a limited period. After these initial reporting inadequacies have been eliminated a continuing instruction audit program will minimize future errors.

MAJOR RECOMMENDATIONS SUMMARIZED

<u>PRIORITY</u>	<u>RECOMMENDATIONS</u>	<u>PROGRAM</u>
1.	Secure constitutional change in investment authorities	All Systems
2.	Major recommendations previous year	All Systems

MAJOR RECOMMENDATIONS DESCRIBED

1. Constitutional change in investment authorities

If the trust funds of the State of Montana are to gain the advantage of the continually changing forms of investment available to institutional investors some effort must be made to broaden the investment authority governing these trust funds.

2. Review of previous recommendations

(a) Recommendation - request for additional personnel to allow for expansion of computerization, Public Employees' Retirement System.

Action - request was granted. Computerization of the individual accounts was deferred subject to analysis of needs of both the Public Employees' Retirement System and the Teachers' Retirement System by the Department of Administration under the Executive Reorganization.

(b) Recommendation - coordination of PERS and Central Accounting - Budget Systems.

Action - implementation of the Executive Reorganization and the initial stages of central accounting have resulted in the requested revision.

(c) Recommendation - coordination of legislation concerning increased benefits under the Public Employees' Retirement System.

Action - the single bill concerning benefits that passed the legislature was supported by the Board of Administration, PERS and included provision for ample funding.

(d) Recommendation - request for additional appropriation authority to fund on site audit program required by Department of Health, Education and Welfare.

Action - part of the requested funds were made available through the approved budget for the 1971-73 biennium. Reorganization of the Social Security Division and change of priorities will have the on site audit program operating before January 1, 1972.

PROGRAM DESCRIPTION

PROGRAM - RETIREMENT

GOAL

Provides on a funded basis the best possible retirement benefits to all public employees and their dependents upon death, disability or retirement.

OBJECTIVES

Provide a maximum of service and information to the members at a minimum cost.

Secure adequate statistical information to provide full funding for future benefits and to assess the needs of the membership for future benefit changes.

Initiate procedures to simplify reporting and eliminate needless details for retiring members.

ACHIEVEMENTS

Aided in passage of legislation for increased benefit payments for active and retired members. This legislation gave members retiring after July 1, 1971 an approximate 7% increase and recognized the need for improving benefits for retired members granting them an increase equal to 1/2 the consumer price index increase from the January previous to retirement to January, 1971. The funding for these benefits was funded by an increase in the employer contributions.

Computerized the writing of benefit payment checks. This will facilitate a more integrated central accounting system when these checks are produced by the central system November, 1971.

PERFORMANCE INDICATORS

Public Employees' Retirement System

Cost:	1968-69	1969-70	1970-71
Administrative	129.68	1,423.79	1,528.88
Benefits	52,763.44	59,137.57	62,113.87
Refund of Contributions	20,222.71	21,839.43	20,760.92
Assets	55,319,248.90	62,273,908.23	70,281,539.15

Performance:

Membership	19,229	20,977	22,096
Refunds	3,839	4,201	4,351
Benefits @ 6/30	2,455	2,667	2,939
Yield on investments	5.18%	5.67%	6.30%
*after sale of bonds noted in No. 2 achievement			*5.19%

Game Wardens' Retirement System

Cost:			
Administrative	- - -	- - -	- - -
Benefits	21,842.00	24,998.00	24,021.00
Refund of Contributions	4,528.00	-0-	8,174.00
Assets	625,927.87	733,465.09	860,535.31

Performance:

Membership	81	89	87
Benefits	6	6	6
Yield on investments	4.54%	5.60%	6.73%

Judges' Retirement System

Cost:			
Administrative	2,402.00	1,189.00	1,100.00
Benefits	34,384.00	53,271.00	60,327.00
Refund of Contributions	-0-	1,495.00	-0-
Assets	408,072.34	541,003.30	677,999.40

Performance:

Membership	29	31	31
Benefits	6	7	7
Yield on investments	4.95%	7.12%	7.27%

PROGRAM - SOCIAL SECURITY

GOAL

The Social Security Division exists to provide, to employees of the state and its political subdivisions, and to the dependents and survivors of such employees, the basic protection accorded to others by the old-age and survivors' insurance system embodied in the Social Security Act, through an agreement between the State of Montana and the Department of Health, Education and Welfare. This agreement, which was entered into on December 7, 1953 is referred to as the Federal-State Agreement.

OBJECTIVES

Provide service to agencies through improved instructional procedures, as the on site audit program is initiated.

Continue to update recordkeeping procedures to minimize errors in reporting and expedite collections to gain the fullest advantage of investments.

ACHIEVEMENTS

During the 1970-71 fiscal year four referendums for social security coverage were conducted for two (2) groups of employees belonging to Public Employees' Retirement System and six (6) groups of employees belonging to Teachers' Retirement System.

Eight modifications of the Federal-State Agreement were prepared during the fiscal year providing social security coverage for nine additional coverage groups.

PERFORMANCE INDICATORS

	<u>1968-69</u>	<u>1969-70</u>	<u>1970-71</u>
Number of entities	892	832	797
Assets	3,715,181.01	4,489,031.00	4,892,394.09
Number of errors corrected		2,500	1,254

VOLUNTEER FIREMEN

Until the minimum of \$1,000,000 is reached the Public Employees' Retirement System is responsible for the gathering of the reports of the 46 volunteer firemen groups of unincorporated towns which as of June 30, 1971 had a total certified membership of 873. The financial reporting remains the responsibility of the Industrial Accident Board.

PROGRAM COST SUMMARY

PROGRAM

Public Employees' Retirement System*	\$ 152,888.00	\$ 142,379.00	\$ 10,509.00
Game Wardens' Retirement System	-0-	-0-	-0-
Judges' Retirement System	1,100.00	1,189.00	(89.00)
Social Security Division	<u>52,480.00</u>	<u>46,662.00</u>	<u>5,818.00</u>
TOTAL	<u>\$ 206,468.00</u>	<u>\$ 190,230.00</u>	<u>\$ 16,238.00</u>

*Paid by Public Employees' Retirement System - refer to Source of Funding

PROGRAM COST DETAIL

<u>PROGRAM</u>	<u>1970-71 FY TOTAL</u>	<u>PERSONAL SERVICES</u>	<u>OPERATING EXPENSES</u>
Public Employees' Retirement System	152,888.00	89,251.00	63,095.00
Game Wardens' Retirement System	-0-	-0-	-0 -
Judges' Retirement System	1,100.00	-0-	1,100.00
Social Security Division	52,480.00	32,837.00	19,643.00
TOTAL	206,468.00	122,088.00	83,838.00
	<u>CAPITAL</u>	<u>GRANTS & BENEFITS</u>	<u>INCREASE IN ASSETS</u>
Public Employees' Retirement System	542.00	6,553,564.00	8,007,631.00
Game Wardens' Retirement System	-0-	32,918.00	127,070.00
Judges' Retirement System	-0-	60,327.00	136,996.00
Social Security Division	-0-	20,009,616.00	403,363.00
TOTAL	542.00	26,656,425.00	8,675,060.00

SOURCE OF FUNDING

General Fund

Earmarked Revenue Fund:

Public Employees' Retirement Account	148,088.00
Judges' Retirement Account	1,100.00
Social Security Account	54,822.00

Agency Fund:

Public Employees' Retirement Account	*15,558,337.00
Game Wardens' Retirement Account	159,988.00
Judges' Retirement Account	198,423.00
Social Security Account	20,551,948.00

TOTAL	36,672,706.00
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* \$182,985 carried in the items in transit account 6/30/70 but not yet posted into employer's or employee's contributions and contributions to expense accounts.

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